

Scope of Customer Retention Problems in the Mobile Phone Sector: A Theoretical Perspective

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Abstract:

As identified by large numbers of scholars, service organisations are facing critical problems regarding a set of questions relating to customer retention (CR), namely, How to retain their customers? and How to decrease both customer costs and customer mobile-switching rates? Thus, this study focuses on CR problems in the mobile phone service sector. CR has become an issue as customers increasingly switch service providers as competition between service providers escalates. CR is further exacerbated with mobile service providers spending billions in gaining new customers but rarely spending equal amounts on establishing, maintaining, and building healthy long-term relationships with their existing mobile subscribers.

Keywords: customer retention, relationship benefits, relationship cost, relationship classification, and mobile service providers.

1. Introduction

Customer retention (CR) is a crucial area of study in the field of relationship marketing that is mainly concerned with keeping customers in the long term (Grönroos, 1997). CR is essential for all firms in the service sector, especially in the present consumer market, and it will receive a great deal of attention over the next few years (Appiah-Adu, 1999; Alshurideh, 2010a). This is because customers are considered a real asset to firms, the majority of which are facing considerable consumer-base losses (Swanson and Hsu, 2009). The paper outlines the background for customer-retention problems in section two and then provides justifications for studying CR issues in the mobile phone service sector in section three. Section four clarifies why studying CR issues from the mobile suppliers' perspectives are needed. The last section summarises the study's main findings and provides recommendations for further investigation purposes.

2. Study problem and background

This study was conducted in one of today's most rapidly-growing and competitive sectors, the mobile phone industry (Gruber, 2005). The cellular phone industry accounts for nearly £1.1 trillion globally, and approximately €200 billion in Europe by providing a variety of businesses such as mobile services, handsets, content delivery, and infrastructure manufacture/installations (Eccho, 2009). The importance of the mobile business has increased since it has now entered all aspects of life, including education, health, business and entertainment. Mobile phones are described as "those telephones that are fully portable and not attached to a base unit operating on dedicated mobile phone networks, where revenue is generated by all voice and data transmissions originating from such mobile phones" (Intel Report, 1998, cited in Turnbull and Leek, 2000, p.148).

Over the last decade, the mobile industry has passed through a wave of critically rapid changes in its structure, competition, strategies, techniques, application and technological environment (Alshurideh, 2010b; Al-Dmour et al., 2014). These changes occurred as a result of globalization, liberalisation, deregulation and technological developments, which are the primary factors affecting economies in general, and the mobile phone sector, in particular. As a result, these challenges undermine the ability of businesses to retain their customers (Kalakota et al., 1996; Alshurideh et al., 2012). The wireless communication sector is not excluded from this phenomenon, being one of the fastest-growing service segments in telecommunications (Kim and Yoon, 2004), and has both "high customer turnover and high customer acquisition cost" (Bolton, 1998, p.52). Recently, the wireless telecommunication sector experienced an unprecedented increase in competition, highlighting the importance of retaining existing users (Seo et al., 2008). According to Andic (2006), in Great Britain, mobile phone operators are losing more than a third of their young subscribers to other rival networks every year, which costs them over \$1.8bn (equal to £949m) in revenue.

There are many critical issues that support the study of CR in the mobile phone sector. These issues are divided into two parts, to represent both customer and supplier perspectives. This paper focuses more on investigating

CR from the customers' perspective rather than from the suppliers' perspective. This is because the suppliers' view and the benefits of a mutual relationship and CR have been widely discussed by both practitioners and scholars (Thorsten and Alexander, 1997; Wirtz and Lihotzky, 2003). However, customers' views and the benefits of being in a long-term relationship with the advantages of repeat purchasing have not received much attention (Berry, 1995).

3. Studying CR issue in the mobile phone sector

In the mobile phone market, CR becomes an essential phenomenon since this sector has witnessed substantial growth, change and competition both globally and domestically. A considerable number of firms in the mobile phone sector are losing their current customer bases at rates exceeding 30%, despite practising different relationship marketing strategies to retain existing customers (Grönroos, 1995; Ravald and Grönroos, 1996; Ranaweera and Prabhu, 2003). In addition, Andic (2006) stated that the major mobile network operators in the UK, including Orange, T-Mobile, O2 and Vodafone, lose over a third of their youth subscribers to rival providers. At the same time, many managers are unable, in most situations, to address this fact directly, although they are striving to understand the reasons for this loss (Reichheld, 1996). Accordingly, these mobile operators cannot afford to lose current and future customers, as such a loss would, in turn, lead to lost sales and profits, and, ultimately, the failure of businesses (Reichheld and Sasser, 1990; Reichheld and Kenny, 1990). This is because losing a single customer means losing all repeat purchase incidents, which are usually measured by loss of all potential cash flow (Alshurideh, 2014b).

Previous research has suggested many reasons for studying CR in the mobile phone sector from a consumer perspective. Recently, mobile penetration or usage rate has become very high in different European countries. For example, the penetration rate has reached almost 100% in Germany (Dewenter et al., 2007), 103% in Western Europe and 124.6% in Italy (Ahonen, 2006). According to the same sources, the penetration rate in the UK was estimated at 114.8%. In addition, about 27% of UK mobile users have two mobile handsets, while 87% have only one. Thus, it is more difficult and expensive acquiring new customers than focusing on current customers, especially in a mature market such as the UK and US wireless communication market (Buttle and Bok, 1996; Seo et al., 2008). Also, according to Grönroos (1995), the cost of encouraging satisfied customers to buy more products/services is lower than the cost incurred in finding new customers and making them buy various product offerings. Therefore, suppliers would be better advised to concentrate on satisfying the needs of existing customers by providing clear contractual and non-contractual relational mobile offers. In addition, customers have become very familiar with mobile telecommunication since it was introduced in 1996. Thus, as customers have acquired a relatively good knowledge of mobile phone supplier characteristics and the offers that affect their decision-making; making a suitable choice will encourage them to become involved in a long-term relationship (Alshurideh et al., 2015). Also, mobile users are familiar with the different services provided by operators, such as roaming and multimedia messaging service (MMS), and suppliers' product offerings such as Universal Serial Bus (USB), and personal mobile handsets (Jansen and Scarfone, 2008).

Moreover, for Alshurideh et al. (2012) and Shannak et al. (2012), customer experience and customer knowledge becomes important especially when consumers experience confusion in the mobile marketplace when choosing the best relationship and contractual option offered by operators (Leek and Kun, 2006). Customer confusion often occurs as a result of a variety of mobile phone plans introduced and advertised similarly in the marketplace. This can make the process of comparing contract alternatives, benefits and costs a relatively difficult issue for some customers. In addition, choosing to analyse and investigate the mobile contract will produce valuable benefits for both relationship parties, especially for customers in the long term. In addition, a choice of mobile contracts should be based on the purchasing habits and predictability of usage in the consumer's previous experience. This is because the contract purchasing behaviour becomes a repetitive choice behaviour taking place as a continuous process, therefore, the predictors and determinants of such contracts need to be explained in great detail (Sheth and Raju, 1974). Thus, customers are facing different challenges, namely, How does a customer choose from among various mobile airtime offers? and, How is the customer's choice influenced by different purchase consequence components offered by mobile suppliers?

4. Studying CR issues from mobile suppliers' perspectives

Choosing to study CR from the supplier's side has been mentioned and justified in large number of previous studies (e.g., Walter et al., 2001). However, the main challenges that currently face mobile operators competitively are how to acquire new subscribers and retain existing ones, especially young subscribers (Seth et al., 2005). This view is confirmed by Bolton (1998) who illustrated that the mobile industry's churn rate is currently 2.7% each month (for example, about 30% per year), and the typical firm experiences the equivalent

of complete customer turnover every three years. In France, for example, operators lose about 30% or more of their subscribers every year in spite of having large customer acquisition expenditures (Lee et al., 2001). Also, it has been claimed by Barnes (2001) that attracting new customers is significantly more costly than retaining existing ones. Along the same lines, it has been claimed that the cost of attracting and recruiting a new customer is five times more than the cost of keeping a current customer (Rosenberg and Czepiel, 1992; Grönroos, 1995). This view has been confirmed by Halliday (2004) who in 1998 claimed that automobile executives estimated that it cost about \$200 to keep a customer compared with \$800 to attract one. By comparison, in the mobile industry, Bolton (1998) contended that the average cost of acquisition for a new subscriber was about \$600. As a result, it may be questioned whether mobile operators, who are facing major existing customers losses every year, still experience a good businesses turnover also.

The suitable explanation for this issue is that mobile operators should focus more on current customers being satisfied and not switching or being attracted by other operators for two main reasons. First, the existing customers cost their operators a huge sum of money, time and effort to attract them. For example, it is reported that the aggregate advertising expenditure cost of the main UK mobile operators including Orange Plc, O2 UK, Hutchison 3G UK Ltd, Virgin Mobile Telecoms Ltd, T Mobile Network and Vodafone Ltd to advertise mobile offerings to target customers and stimulate them to be involved in relationships with mobile operators was over £235 million in 2008, while it was around £261 million 2006 (Boyfield, 2009). Also, it has been claimed that the cost of acquiring each new mobile subscriber was estimated at between \$600 and \$800, which encompasses many costs such as advertising, marketing, sales and commissions (Vandenbosch and Dawar, 2002). Thus, caring for current customers would help minimize both operating and marketing costs attached to acquiring new customers to cover the cost of lost ones. Additionally, Aydin and Özer (2005) explains that Orange loses around 20% of its customers each year. The average cost to Orange of recruiting each new customers was £256 in 1996. Therefore, and based on Palmer's (1998) claims, reducing the churn rate from 20% to 10% would produce over £25 million of savings every year. Second, in general, mobile operators ensure good business and generate relatively high revenue through selling different products and services to both current and new customers. As a result, it has been estimated that the cellular phone industry accounts for approximately €200 billion in Europe by providing a variety of businesses such as mobile services, handsets, content delivery and infrastructure manufacture/installations (Eccho, 2009). In the UK market only, Boyfield (2009) claimed that the total annual revenues of the UK mobile telephone operators increased from £200 million to £1600 million as a result of providing a range of product and service choices, ranging from ringtone downloads to travel alerts. Also, it has been estimated by Ofcom that the total mobile telecom revenue that was generated in both data service and mobile voice was £15.1 billion in 2007. Thus, although mobile operators try to increase the level of business by attracting new customers, they ensure more business with existing customers, and focusing on minimizing customer attrition. The reason for this, according to the Organization for Corporate and Development study, the average annual revenue from each mobile user is \$439.00 (based on 30 leading countries) (Wales, 2009).

Therefore, mobile suppliers are increasingly competing to attract new customers and retain the existing ones by providing new wireless utilities through new mobile products, accessories, data, technology and services continuously. For example, it is claimed by Verheugen (the EC Vice-President in charge of Enterprise and Industry) that "In the European Union market alone, there are about 185 million new mobile phones a year" (Foresman, 2009). Thus, keeping customers is an issue that needs continuous monitoring from operators because keeping customers means more cash flow and less operational and marketing costs. In addition, providing different types of contractual mobile services with suitable levels of mobile technology are considered the most challenging for operators. This is because serving customers in the long term means delivering high-quality services, which is considered essential for success and survival in today's competitive business environment (Zeithaml et al., 1996; Abu ELSamen and Alshuraideh; 2012; Obeidat et al., 2012).

Summary and recommendations for future studies

To summarize, a large number of wireless telecommunication and relationship marketing studies indicate that the majority of companies are still losing customers at a remarkable rate, especially mobile service providers. Thus, the importance of studying CR has been highlighted by many factors in this paper. These factors include increased competition, increased customer-switching rates, unreliability of traditional marketing tools, evolving consumer-buying patterns, more demanding and sophisticated customers, changing business themes, as well as the rapid scale of innovation. As a result, greater attention has been given to customer satisfaction, increasing the effect of referral marketing and reference-group inference, marketing communication and social-media effect, increasing quality management and expectations, increasing mobile-phone suppliers mergers and acquisitions, increasing information systems use for competitive advantages and increasing partnerships (Al-Lozi et al., 2012;

Alshurideh, 2009; Alshurideh, 2014a; Alshurideh et al., 2014; Altamony et al., 2012). Accordingly, this study of CR has focused on the mobile-phone sector, as about 50% of mobile-phone contracts are renewed (Dalen et al., 2006). Therefore, for customer-retention considerations, future studies will need to provide a working definition of “contract” and explain how suppliers can use contracts to retain customers in the long term. In addition, organisations need to start employing customer-knowledge management to access important customer indicators to increase the chance of practicing relationship marketing to increase customer-retention rates. Thus, it becomes important to track how customer-knowledge management affects CR accurately.

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